

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6314

BILL NUMBER: SB 70

DATE PREPARED: Nov 17, 2000

BILL AMENDED:

SUBJECT: School retirement plans.

FISCAL ANALYST: Chuck Mayfield

PHONE NUMBER: 232-4825

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

| STATE IMPACT | FY 2001 | FY 2002 | FY 2003 |
|--------------------------------|----------------|---------------------|---------------------|
| State Revenues | | | |
| State Expenditures | | 22,800,000 | 22,600,000 |
| Net Increase (Decrease) | | (22,800,000) | (22,600,000) |

| LOCAL IMPACT | CY 2001 | CY 2002 | CY 2003 |
|--------------------------------|----------------|-------------------|-------------------|
| Local Revenues | | 22,800,000 | 22,600,000 |
| Local Expenditures | | | |
| Net Increase (Decrease) | | 22,800,000 | 22,600,000 |

Summary of Legislation: This bill provides that a school corporation is entitled to a retirement plan conversion distribution if the school corporation establishes a defined contribution plan or a tax-sheltered annuity for employees of the school corporation: (1) who were covered by retirement or severance provisions established by the school corporation in its master contract before July 1, 1999; (2) whose benefits that accrued under the retirement or severance provisions are replaced in whole or in part by the defined contribution plan or tax-sheltered annuity established by the school corporation; (3) who become participants in the defined contribution plan or tax-sheltered annuity established by the school corporation; and (4) who are employees of the school corporation after June 30, 2000. It also provides that the initial distribution in 2002 is equal to one-half of the amount contributed by the school corporation during the 1999-2000 and 2000-2001 school years to fund the present value of the benefits to which the employees were entitled, as of July 1, 1999, under the retirement or severance provisions established by the school corporation in its

master contract before July 1, 1999. The bill phases out the distribution over ten years. This bill transfers money from the Administrative Trust Fund of the Lottery to make the distributions.

Effective Date: July 1, 2001.

Explanation of State Expenditures: This bill entitles school corporations to a distribution of funds if the school corporation establishes a defined contribution plan or a tax-sheltered annuity for employees.

The distribution estimate is based on benefits of the 1999 retirement plan or severance plan benefits established before July 1, 1999, times the estimated number of retirees each year. Currently, only about 48 schools would qualify due to the establishment of a defined contribution plan or tax-sheltered annuity. The estimate assumes that all 294 schools would adopt a defined contribution plan or tax-sheltered annuity so they would qualify for a distribution. The actual expenditures from the **Pension Conversion Fund** established in this bill may be different from the transfers made from the Lottery Administrative Trust Fund depending on the numbers of schools who adopt the plans and the number of retirees. The following table shows the number of certified staff by age and the estimated percentage of employees that have retired at that age.

| Age | Number Certified Staff for the 1998-1999 School Year | % Retired Over Last 3 Years |
|-----|--|-----------------------------|
| 55 | 1,996 | 10.75% |
| 56 | 1,946 | 7.73% |
| 57 | 1,438 | 10.77% |
| 58 | 1,154 | 13.71% |
| 59 | 959 | 16.71% |
| 60 | 736 | 18.80% |
| 61 | 596 | 20.98% |

This bill requires Lottery surplus revenues to be transferred from the Administrative Trust Fund to the Pension Conversion Fund each year beginning in FY 2002 through FY 2012. The annual transfers would be made in the amounts as shown below:

| October Distribution Date | Amount (millions) |
|----------------------------------|--------------------------|
| 2001 | \$22.8 M |
| 2002 | \$22.6 M |
| 2003 | \$21.6 M |
| 2004 | \$19.6 M |
| 2005 | \$17.1 M |
| 2006 | \$15.8 M |
| 2007 | \$12.8 M |
| 2008 | \$9.8 M |
| 2009 | \$6.8 M |
| 2010 | \$3.8 M |

Currently, after paying prize money and operating expenses of the Lottery Commission, surplus Lottery revenue is transferred from the Administrative Trust Fund in the following manner:

- (1) The Indiana State Teachers' Retirement Fund receives the lesser of:
 - (A) \$30 M each year in quarterly transfers; or
 - (B) the quarterly contributions necessary so that the ratio of the unfunded liability of the Retirement Fund compared to the active teacher payroll is as close as possible to, yet not greater than, the ratio on July 1 of the previous year;
- (2) the “k” portion of the Pension Relief Fund receives \$10 M in quarterly transfers;
- (3) the “m” portion of the Pension Relief Fund receives \$20 M in quarterly transfers; and
- (4) the remaining revenue is then transferred to the Lottery and Gaming Surplus Account (LGSA) within the Build Indiana Fund.

Under this proposal, the amounts described above would be transferred to the Pension Conversion Fund before the remaining revenue is transferred to the LGSA (between Steps (3) and (4) above). This bill would reduce the amount that would otherwise have been transferred to the LGSA within the Build Indiana Fund. In FY 2000, \$93.2 M was transferred to the LGSA.

There are two accounts within the Build Indiana Fund: the LGSA and the State and Local Capital Projects Account. Surplus lottery revenue, as well as revenue from the Riverboat Wagering Tax, the Pari-Mutuel Wagering Tax, and charity gaming is deposited in the LGSA. A statutorily determined amount of revenue in the LGSA is transferred each year to the Motor Vehicle Excise Tax Replacement Account within the state General Fund. A portion of the money remaining in the LGSA is then transferred to the State and Local Capital Projects Account. The available balance of the Lottery and Gaming Surplus Account was \$374.4 M as of June 30, 2000.

Data will be updated as more current teacher information is available.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: See Explanation of State Expenditures.

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: Local School Corporations.

Information Sources: Department of Education databases, Nelson Miller, Indiana School Boards Association.